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INDEPENDENT STATE AUDITOR'S
REPORT ON THE ACTIVITIES
OF THE
SOUTH HADLEY HOUSING AUTHORITY
JANUARY 1, 1999 TO DECEMBER 31, 1999

OFFICIAL AUDIT REPORT

APR 21 2000

ISSUED BY THE
Department of the State Auditor

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AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the South Hadley Housing Authority for the period January 1, 1999 to December 31, 1999. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD's procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with contract provisions and that rental charges by landlords were consistent with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.

- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Development and modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 98-0782-3).

Based on our review we have concluded that, during the 12-month period ended December 31, 1999, the Authority maintained adequate management controls and complied with applicable laws, rules and regulations for the areas tested. In addition, our follow-up review indicated that the Authority had adequately addressed our prior audit recommendations.

AUDIT RESULTS

Status of Prior Audit Results

As part of our audit of the South Hadley Housing Authority we reviewed the progress made in addressing the issues noted in our prior audit report (No. 98-0782-3). Our follow-up review determined that the Authority has taken sufficient corrective action to address the following issues.

a. Questionable and Unapproved Development Expenditures: Our prior review identified \$36,360 in questionable and unapproved development expenditures: \$35,747 during the fiscal year ended December 31, 1997 and an additional \$613 in February 1998. These expenditures consisted of \$10,013 for professional services relative to the engineering and design of parking improvements at the Authority's Newton Manor elderly housing program, \$1,953 for laundry room improvements at the Lathrop Village elderly program, and \$24,394 for the purchase of a pick-up truck used by the maintenance staff at the Authority's family and elderly programs. These expenditures did not pertain to the development program, and the Authority was not able to provide any documentation from the Department of Housing and Community Development (DHCD) approving these charges.

In previous years, the Authority received \$320,000 from DHCD under a Contract for Financial Assistance (CFA), dated September 24, 1984, for the purpose of developing elderly housing (Program 667-4) in the town of South Hadley. The Authority's CFA for this development program prohibits the use of funds for purposes other than those for which they are intended without the approval of DHCD. We also noted that the Authority's fee accountant recorded these costs on the development program financial statements rather than on those of the management program, thus distorting the true cost of both programs.

Our follow-up review noted that the Authority's fee accountant prepared adjusting journal entries as of December 31, 1998, which transferred the costs in question from the development program to the family and elderly housing program (400-1) capital reserve account.

b. Inadequate Administrative Controls: Our prior review indicated that, because of questionable management practices, the lack of an updated management plan, and inadequate adherence to DHCD's

fiscal policies and procedures, the Authority did not (1) properly account for its inventory; (2) conduct annual inspections of its housing units; (3) issue all federal income information Forms 1099; and (4) make Payment in Lieu of Taxes (PILOT) for its 689 Program while over-accruing funds for its 705 Program.

Our follow-up review noted that the Authority has tagged all inventory items and that inventory cards have been updated to include all purchases. In addition, the Authority performed annual inspections of all Authority owned property in February 1999 and the fee accountant issued all required Forms 1099 for calendar years 1998 and 1999. On January 13, 1999, the Authority paid \$6,840 to the town of South Hadley representing previously accrued, but unpaid, funds under the PILOT agreement for the special needs housing program. A revised PILOT agreement dated January 26, 1999 was signed by the Authority and the town covering both the family and special needs housing programs.

c. Improper Write-off of Tenants' Accounts Receivable: Our prior review disclosed that the Authority improperly wrote-off four tenants' accounts receivable totaling \$3,539 during the fiscal year ended December 31, 1997. The write-off was treated by the fee accountant as a reduction of tenants' rents rather than as an increase in collection losses. The improper accounting for the write-off of the tenants' accounts receivable caused the Authority's operating subsidy earned to be overstated and its collection losses to be understated. The Authority also did not have a written collection policy and was unable to substantiate any collection efforts prior to writing off the accounts.

Our follow-up review revealed that the Authority has complied with our prior audit recommendations by developing a written collection policy, which was adopted by the Board on April 14, 1999. Also, the fee accountant prepared adjusting journal entries in fiscal year 1998 to correct the previous accounts receivable write-offs. The Authority also returned \$3,539 in excess subsidies to DHCD that had been previously received as a result of the improper write-offs.

